Financial Planning Tips For Each Decade of Life

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As longtime wealth advisors, we've seen this first-hand: The benefits of good financial decisions tend to compound over time, creating a lifetime advantage. Based on our work with multiple generations within families, we thought it would be useful to offer some key advice for each decade of life.

Each situation is different, of course, and much of our advice applies at any age. So please use our suggestions as a starting point. They are meant to launch conversations about where you are now and where you'd like to be years from now. We can then advise you on the best way to get there.

Twenties – Get the Early Bird Advantage

Open a Roth IRA, which lets you leverage youth and a lower tax bracket. The beauty of a Roth is that it inhabits a tax-free zone, even on withdrawals, starting at age 59 ½. And it's flexible. At any age, you can withdraw the principal tax-free to pay for college/grad school, and up to $10,000 for a first-home down payment. And at most income levels, you can contribute to a Roth and your company's pension plan.

Strive for a stellar credit score. A high credit score saves you money each month on interest payments (see chart below), money you can save and invest. Paying off credit card balances every month is also a great way to control spending.

A Real Drag: Less-than-Stellar Credit Score
$250,000 mortgage for 30 years, at recent interest rates.

Credit Score (FICO)	Interest Rate	Monthly Payment	Total Interest Over 30 Years
760-850	3.43%	$1,112	$150,482
700-759	3.65%	+$32	+$11,181
680-699	3.83%	+$57	+$20,213
660-679	4.04%	+$87	+$31,270
640-659	4.47%	+$150	+$53,932
620-639	5.02%	+$232	+$83,538

SOURCE OF DATA: Myfico.com, as of March 23, 2016.

Mind the Gender Pay Gap. Women tend to earn less than men for comparable work, with estimates ranging from 5% to 20% less, depending on the dataset. Over a lifetime, even 5% can add up to a tidy sum. As young people enter the workforce, we encourage them — especially women — to research average compensation for their field at the local level (including stock options if applicable) and to gain confidence in negotiating a salary.

Thirties – Start Aligning Finances with Values

Make financial decisions in context of who YOU are. Just because you qualify for a hefty mortgage doesn't mean it's a good idea. What do you want to do: Start a new business? Travel? Be debt-free by the time the kids are in college? Make your mortgage and other finances suit your personality and life choices, not the other way around.

Manage risk. Be wary of having most of your net worth tied up in any one investment, even if it seems "solid," such as real estate or the company you work for or own. If you have a family, have a will *and* an estate plan. A good estate plan will transfer assets to your heirs privately, tax-efficiently, and in line with your wishes. If your net worth is not high enough to cover your family's long-term needs, buy 20-year disability and term insurance in your 30s, when it's inexpensive.

Be mindful of titling. Washington and eight other states are community property states, meaning that all assets acquired during marriage (other than by gift or inheritance) are jointly owned. Keep your pre-marriage and all inherited assets in your name unless you intend to make a gift to your spouse.

Forties – Save Deliberately

Set up and use a "Savings Budget." This decade is key for ramping up tax-advantaged savings for education, healthcare and retirement. That is, at least, the theory.

In practice, most people don't save methodically in their 30s and 40s for three reasons:

1. Pressing new demands, from home renovation to business ventures to private tuition.
2. Confusion about how much money to put into which account;
3. Unwillingness to lock away money for decades.

This is why you need what we call a Savings Budget.

A Savings Budget specifies how much you'll put into each tax-advantaged account each year, and how much you'll keep on hand as easy access regular savings. You want to use (in varying amounts) all the tax-advantaged options you qualify for, balancing out their pros and cons (full taxation of withdrawals, mandatory withdrawals, etc.).

Don't overlook Health Savings Accounts (HSAs). If you have a high-deductible health insurance plan, take advantage of the option to open an HSA. A 65-year-old couple is likely to need $220,000 for health care in retirement, in addition to expenses covered by Medicare. The HSA can be a great source of tax-free money to pay some of those bills

Fifties – Strategize and Prioritize

Trace out your retirement income stream. Ideally, you want retirement income to come from a variety of sources – pensions, Social Security, IRAs, part-time work, etc. – whose withdrawal and tax requirements differ. You can then optimize when and how to take payments from each source, while allowing your principal to keep growing over time.

Tax-Advantaged Savings: Mix and Match

	Account Type	Max Contribution Each Year	Tax-Deductible IN?	Tax-Free OUT?	Early Withdrawal Penalty	Exceptions to Penalty*	Mandatory Withdrawals?
Individual Retirement Accounts	Roth IRA#	$5,500; $6,500 over age 50	**NO**	**YES**, after age 59½ and if Roth has existed for at least 5 years	10% plus income tax on withdrawals higher than contributions	Higher education costs; $10,000 for 1st home purchase; certain medical expenses	**NO**
	IRA^	$5,500; $6,500 over age 50	**YES**, if within contribution limits	**NO**, all withdrawals are taxed as income in year received	10% in addition to income tax on withdrawals before age 59½	Same as Above	**YES**, age 70½
Job Related Accounts	Simplified Employee Pension (SEP) IRA	20% of NET Self-Employment Income (minus expenses); 2016 max = $53,000	**YES**	**NO**, Same as Above	Same as Above	Same as Above	**YES**, age 70½
	401(k)	$18,000; $24,000 over age 50	**YES**	**NO**, Same as Above	Same as Above	Certain medical expenses; leaving job after age 55	**YES**, later of age 70½ or retirement
Special Savings Accounts	Health Savings Account (HSA)	$3,350 individual; $6,750 family; PLUS $1,000 over age 55	**YES**, until you enroll in Medicare, usually age 65	**YES**, for eligible healthcare costs	20% plus income tax on all non-eligible disbursements	Over age 65	**NO**
	529 Plan for College Savings	$70,000 ($140,000 for married) every five years per beneficiary	**NO**	**YES**, for qualified higher education costs	10% of withdrawal plus tax on the income and gains (not the principal)	If beneficiary receives scholarships or other tax-free financial aid	**NO**

* Disability and death are always exceptions to early withdrawal penalties. Other exceptions are described as above.

\# Singles with annual income of up to $132,000 ($194,000 married) can contribute to Roth IRAs (as of 2016).

^ Tax deductions for regular IRAs begin to phase out starting at income of $61,000 for singles, $98,000 marrieds (as of 2016).

SOURCE OF DATA: Laird Norton Wealth Management

Evaluate succession and/or exit strategies, if you own a business. Letting go of a business requires careful advance planning, usually years in advance, to make sure you're making the best possible decisions in terms of taxes, your estate, lifestyle and family harmony.

For kids going to college, look into applying for financial aid. Families with relatively high incomes sometimes do qualify for aid. Assets in retirement accounts don't count, and the value of your primary residence either doesn't count or is capped at 1 to 4 times your income.

Sixties – Set the Stage for Second Acts

Create a Plan B. Develop an interest or new work that lets you keep active and connected. Numerous studies show that socially active people in their 60s, 70, 80s and 90s are healthier and happier.

Firm up housing plans. Do you sell your primary residence? Buy a new one? Rent? Live elsewhere part of the year? There are an increasing number of alternatives to staying in the family home, both in the US and abroad.

Plan for health issues. Consider buying long-term care insurance in your 60s, when it's still affordable. Include a Living Will or Healthcare Directive in your estate plan.

Seventies & Beyond – Fully Align Finances and Values

Simplify. Gift or sell under-used properties and other assets, consolidate financial accounts, and make sure assets are titled as you'd like. Your spouse and heirs will be grateful.

Focus on legacy. Adjust your estate plan so it fully reflects your values, be it providing for your heirs, a cause you feel strongly about or both. Decide how much to gift during your lifetime vs. through your estate plan, and how to accomplish this in the most effective way, not only in terms of taxes but in terms of impact that is significant and long-lasting.

Reassess risk. Assess for whom you're investing now – mostly to fund retirement for you and your spouse, or mostly to provide for the next generation? As counterintuitive as it may seem, investing an inheritance for the next gen can mean taking on more portfolio risk as you age. ◘

Financially Fit Families

Know the "money personality" of each family member and then work to accentuate the positive and offset the negative. Big spenders, for example, are encouraged to start automatic savings deposits or track spending with an app. Excessive savers are invited to take some risks and pursue their passions.

Teach pre-schoolers to make choices, and layer on money messages as they grow. This can begin in store aisles helping toddlers choose between two things they want NOW. Each year, layer on activities and talks – what we call Money Messages – that prepare kids to become financially savvy and independent.

Plan for three-generation retreats or vacations. Bringing grandparents, parents and kids together in a place far from home can allow for relaxed but important talk about values, goals and finances.

ABOUT THE AUTHORS

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